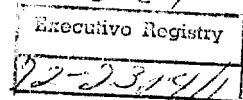


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25 APR 1972



MEMORANDUM FOR: Director of Central Intelligence  
SUBJECT : Costing Soviet Military Programs

1. This memorandum comments briefly on our work on costing Soviet military programs and outlines some recent steps we have taken to improve this work. An additional action along these lines requiring your approval is recommended in paragraph 7.

2. In various discussions with you in the recent past I have sensed your unease concerning our estimates of military spending. At a recent USIB meeting, General Bennett voiced some particular problems with the present estimates. General Graham, DIA's Director of Estimates, has reservations on CIA's estimates of Soviet military spending and has been seeking the opinions of numerous military analysts, including people from universities and contractor organizations. I will comment later on General Graham's steps, but first let me review a bit of history and some recent events in our cost work.

3. Over the years the Department of Defense has been the primary consumer of CIA's work on military spending as well as a major source of data and advice on US accounts and US costing methods. We have carefully nurtured these links and, on the whole, relations have been excellent. Defense Department acceptance of the professional workmanship of the product was reflected in the agreement in 1965 between Secretary Vance and Director McCone establishing CIA as the central point in the community where the costing of Soviet military programs was to be done. Our closest ties have been with the Office of the Assistant Secretary of Defense for Systems Analysis, with the Office of the DoD Comptroller, with DIA, and with the NSC Staff.

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thru 3

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4. I believe that over the years CIA has done its work on Soviet military costing carefully and well. This is not to say that the quality of the work is uniformly perfect or that once done well it can be forgotten. The Office of Strategic Research regularly evaluates and refines its methods and its data--again in consultation with components of the Defense Department.

5. For example, in the past year an arrangement was made with Admiral Zumwalt's staff for a senior naval officer skilled in naval planning and economics to spend several weeks in Bruce Clarke's shop to evaluate the data and analytic approach used by OSR to cost the Soviet navy. This officer reported to us and to his own department, commenting favorably on OSR's work and offering some useful suggestions which OSR has incorporated into its system. Similarly, OSR has worked with Dr. John S. Foster's people on ways to improve our analysis of Soviet R&D. Most recently a number of interagency cost working groups--chaired by OSR--have been meeting to reexamine all of the ruble-dollar values now used. These groups draw on the full expertise of the community and the military services.

6. I believe that progress is being made in our work and that the work to date is fundamentally sound. At the same time, I am convinced that only confusion can result from General Graham's attempt to draw a large number of outside experts and contractors--at a minimum clearance level--into the analysis.

7. To put the problem of costing Soviet military programs into a clear perspective and to provide you and others in the community with disinterested but expert advice, I recommend that you instruct me to establish a small panel of recognized specialists outside of government who can go into our methods and our data thoroughly and on an all-source classification level. If you approve of this step, I recommend that you sign the attached memorandum to General Bennett informing him of your instructions

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to me and stating that I will be in touch with him concerning the membership of the panel.

EDWARD W. PROCTOR  
Deputy Director for Intelligence

Attachment:  
Memorandum to  
General Bennett

Recommendation contained in paragraph 7 is APPROVED.

Richard Holms  
Director of Central Intelligence

25 APR 1972  
Date

Distribution: (all with copy of Director's memo to General Bennett)

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<b>Remarks:</b>  The principal purpose of the attached memo is to obtain your approval for us to set up a panel of outside experts on Soviet military expenditures under your sponsorship. The secondary purpose is to discourage DIA from continuing with its unsubstantiated bad-mouthing of existing estimates. Hopefully, a panel of outside experts will provide the entire community with an unbiased assessment of our estimates and how these might be improved.  <div style="text-align: right;">Ed Proctor</div>					
FOLD HERE TO RETURN TO SENDER					
FROM: NAME, ADDRESS AND PHONE NO.				DATE	
Deputy Director for Intelligence				25 April	
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